ORIGINAL

0000141802

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2013 JAN 28 P 3:45

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

JAN 2 8 2013

DOCKETED BY

COMMISSIONERS
BOB STUMP - CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF ITS 2011-2012 GAS ENERGY EFFICIENCY IMPLEMENTATION PLAN.

DOCKET NO. G-04204A-11-0149

UNS GAS'S RESPONSE TO RUCO COMMENTS

UNS Gas ("UNS Gas" or "Company"), through undersigned counsel, hereby submits its response to RUCO's November 7, 2012 Comments in this docket. Certain of RUCO's specific concerns are inaccurate or need to be placed in context.

<u>Response</u>

A. Comments regarding Cost Effectiveness.

RUCO Comment:

"RUCO has been steadfast in supporting cost-effective energy efficiency. However, if two utilities are providing rebates for the same purchase, then the cost effectiveness of the program is changed. It is quite possible that a $699 rebate from UNS Gas for a solar water heater is cost effective. And it may be that a $1,350 rebate from UNS Electric for a solar water heating system is cost effective. However, cost effectiveness of the program depends on whether a rebate of $2,049 meets the Societal Cost Benefit Test." RUCO Comments at 1 (emphasis omitted)

UNS Gas Response:[1]

UNS Gas has been very careful to develop an offering for solar water heating that meets not only the Gas Energy Efficiency Rules, A.A.C. R14-2-2501 et seq. ("Gas EE Rules"), but also meets requirements of the REST rules and typical existing Renewable Energy Credit Purchase

[1] UNS Gas understands that RUCO may have withdrawn some or all of this comment in its November 20, 2012 Notice of Errata.

ROSHKA DEWULF & PATTEN, PLC
TWO ARIZONA CENTER
400 NORTH 5TH STREET - SUITE 1000
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

Programs ("RECPP"). The method suggested by Staff and RUCO puts the Gas utility and the Electric utility in direct competition with each other.

- Renewable Energy Resource Technology ("RET") programs and RET measures are excluded from requirements for cost-effectiveness using the Societal Cost Test ("SCT"). See R14-2-2503, R14-2-2507.6, R14-2-2512.A and R14-2-2512.C of the Gas EE Rules. Renewable energy programs are not required to meet the SCT in the REST. Renewable technologies do not pass the SCT.
- The typical RECPP for electric utilities limits the amount of incentive payments for renewable measures to 50% of the installed cost of the RET. Given this requirement, the allowable incentive on a solar water heating system with an average installed cost of $5,000.00 would be $2,500.00. The combined incentive for solar water heating in the UNS Gas RET program including $699 from UNSG and $1,350 from the electric service provider is only $2,049 which is well below the maximum allowed in the RECPP.
- As noted in UNS Gas's Exceptions, Southwest Gas is not excluded from offering an incentive for solar water heaters that have also received REST incentives from an electric utility. By eliminating this offering from the UNS Gas energy efficiency portfolio, UNS Gas would be disadvantaged in meeting the Gas EE Rules.

RUCO Comment:

"Thus, a single ratepayer is paying both utilities for their DSM/EE programs, recovery of their lost fixed costs through a decoupling mechanism, and performance incentive bonuses – all for the same measure. Simply put, customers are paying more than once for the same programs. RUCO believes this is an unintended consequence of the Energy Efficiency Standard." RUCO Comments at 2.

UNS Gas Response:

RUCO's comment does not accurately reflect the administrative history of the REST Rules or Gas EE Rules, how incentive payments are designed under those rules, or how decoupling mechanisms would be applied.

- Even though there might be two incentive payments, the payments would result in two discrete benefits that help the two utilities meet the Commission-mandates: the electric utility would acquire RECs to meet its distributed generation requirement and the gas utility would recognize energy savings from avoided gas usage. Nothing in the REST Rules or the Gas EE Rules precludes this result. Moreover, a single ratepayer would pay for costs related to both the statewide Gas EE Standard and the statewide REST requirements. The Gas EE Rules were written after the REST Rules had been adopted and specifically a provision to allow RET to count toward the gas EE standard, knowing that electric solar thermal water heater programs already existed as part of REST implementation plans. Both utilities would not recover lost revenues through their decoupling mechanism. Only the utility that was providing the energy for water heating that is being replaced would lose revenues. And only that utility would be entitled to recover those lost revenues through its decoupling mechanism. For example, UNS Gas could only count lost therms toward the LFCR to recover lost-fixed costs from a natural gas fueled device.
- UNS Gas does not have, and is not seeking, a Commission-approved performance incentive. Moreover, electric utilities do not have performance incentives related to their REST implementation plans. RUCO's concern of double recovery of performance incentives is doubly misplaced.

ROSHKA DEWULF & PATTEN, PLC
TWO ARIZONA CENTER
400 NORTH 5TH STREET - SUITE 1000
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

B. Comments on Discrepancies in Staff and UNSG Calculations of Cost Effectiveness.

RUCO Comment (on the multi-family program):

RUCO notes the wide disparity between Staff and the Company's Societal Cost Test results. Here are a few examples.

Measure	***Staff Benefit/Cost Ratio***	***UNSG Benefit/Cost Ratio***
Low Flow Shower Head	*0.78*	*8.6*
Kitchen Faucet Aerator	*1.19*	*33.6*
Bathroom Faucet Aerator	*0.72*	*33.8*

RUCO Comments at 2.

UNS Gas Response:

There is not a significant variance in the cost-effectiveness results for Staff's and UNS Gas's multi-family program. . RUCO's table compares apples and oranges. Staff's benefit/cost ratio is a program level allocated to each measure while UNS Gas's benefit/cost ratio is only for the measure level without program administrative costs. In RUCO's table above, for UNSG's Multi-family Program, Staff's program level cost/benefit ratio would be approximately 0.90 versus UNS Gas's *program level* (not measure level) calculation of 1.1.

There are also other reasons why there are variances in between UNS Gas and Staff in this docket. First, UNS Gas used avoided cost of natural gas at the time it was preparing the 2011-2012 EE Implementation Plan (i.e. Fourth Quarter of 2010). Due to the timing of Staff's evaluation of UNS Gas's proposed programs, Staff requested an update for avoided cost of gas in May 2012 before completing its evaluation, and gas prices had dropped significantly, subsequently natural gas prices have risen in the last couple of months.

Second, UNS Gas uses a discount ratio closer to the estimated maximum for a Societal Discount Ratio (which is 4%), whereas Staff uses the Weighted Average Cost of Capital approved for UNSG (6. 99%) for this input.

ROSHKA DEWULF & PATTEN, PLC
TWO ARIZONA CENTER
400 NORTH 5TH STREET - SUITE 1000
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

Conclusion

UNS Gas requests that the Commission adopt the Proposed Order approving its Implementation Plan, as modified by the language set forth in UNS Gas's Exceptions.

RESPECTFULLY SUBMITTED this 28th day of January, 2013.

UNS Gas, Inc.

By ______________________

Michael W. Patten
Jason D. Gellman
ROSHKA DEWULF & PATTEN, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

and

Bradley S. Carroll, Esq.
Tucson Electric Power Company
88 East Broadway Blvd., MS HQE910
P. O. Box 711
Tucson, Arizona 85702

Attorneys for UNS Gas, Inc.

Original and 13 copies of the foregoing filed this 28th day of January, 2013, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered/mailed this 28th day of January, 2013, to:

Jane Rodda
Administrative Law Judge
Hearing Division
Arizona Corporation Commission
400 W. Congress
Tucson, Arizona 85701

Wesley Van Cleve
Bridget Humphrey
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Steve Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Daniel Posefsky
Residential Utility Consumer Office
1110 West Washington Street, Ste.220
Phoenix, Arizona 85007

By Mary Ippolito

ROSHKA DEWULF & PATTEN, PLC
TWO ARIZONA CENTER
400 NORTH 5TH STREET - SUITE 1000
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800